TARIFF READJUSTMENTS AND TRADE EXPANSION

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I WILL try to sum up, if possible, the significant phases of this discussion. I want particularly to commend the able paper of Mr. Kies.[1] He has given a picture of the relation of America to the disordered conditions in Europe that I have hardly seen equaled and I would commend him because he presents no prepared panacea. All he demands is the most intelligent and thoughtful discussion of this matter with a view to its ultimate solution. He takes, I am glad to see, as a fundamental basis of his argument, the statement that our industries should be protected against a ruinous flood of imports. It is significant that he used the word "ruinous". Next he states that our production of manufactured goods and of farm products should be increased to the maximum so that our valuable home market could be preserved by the lowering of costs thereby brought about. As the third fundamental, but as a corollary of the other two, he asserts that our export trade should be increased to utilize our surplus products in every wise and proper manner. He has called our attention to the remarkable fall in the rate of exchange, the vast difference in the wages paid by countries abroad and by our own; and his paper, I believe, will warrant the most careful study as a plan of the foundation on which can be built the superstructure of our future financial and industrial relations with other countries.

The next two papers [2] take opposite sides on the very vexed

[1] See *supra*, p. 145, "Fundamental Factors in the Present Economic Situation in Europe," by W. S. Kies.

[2] See *supra*, p. 176 and p. 159, "A Tariff Policy for a Creditor Nation, from a Low Tariff Point of View," by E. F. Gay, and "A Tariff Policy for a Creditor Nation Considered from a Protective Tariff Point of View," by E. N. Dingley.

question of the tariff. I feel it is perfectly proper for me to leave the discussion of that question just where Mr. Gay and Mr. Dingley leave it. I am frank to say that the opposite extremes of free trade and protection have been ably presented. Personally, speaking as a manufacturer, I would say that free trade is a beautiful theory but after an experience of three changes in tariff policy in this country, when we adopted a tariff for revenue only, which is a sister of free trade, I say to you that it will not work and it is not working today.

From the first of January to the first of October, 1920, there have been imported into this country five times the number of square yards of cotton goods that were imported last year, or practically in any year with one exception since 1912, and the cotton industry today is working on less than fifty per cent production, and about twenty-five per cent of our mills are absolutely closed. There may be no connection between five times the increase in importations and fifty per cent decrease in domestic production, but speaking as a cotton manufacturer whose mill is closed, I think there is.

There are one or two facts not brought out in these papers that I believe should be injected into this discussion. The first is the confusion which has arisen in not distinguishing between the value and the quantity of exports and imports. From 1914 to 1920, speaking in fiscal years, we are told that our export trade has increased by the astounding sum of five and one-half billion dollars. However, a recent statement by a statistician of the National City Bank, Mr. O. P. Austin, ably analyzed the quantities of commodities exported which were expressed in barrels and bales and bushels and tons in comparison with their value in dollars. He reduced all our exports to pounds and found that from 1914 to 1920 our exports had increased the relatively insignificant sum of thirty-five per cent in volume, while their value had increased two hundred and twenty-four per cent. Figuring in the same way the things we buy—our imports—he found that during the same period they increased in quantity sixty-six per cent, while their value increased two hundred and forty-four per cent. In other words, while our favorable trade balance, so-called, if expressed in dollars shows a remarkable increase in our favor, yet if our total foreign trade is reduced to quantities, it appears

that our imports are increasing faster than our exports. Then he was curious and he looked back to see what the normal increase in exports had been in previous years, taking the same measures of quantity not value, and he found that from 1908 to 1914, the preceding six years, the quantities of exports of this country had increased twenty-five per cent which might be taken as a normal increase of our export trade, expressed in pounds, gallons, bushels and tons.

Now if under the abnormal condition of the world-war years when all nations have been willing to pay any price for commodities to equip their armies and save their people from starvation and freezing, when we have exported coal all over the world at a value hitherto unknown to ourselves or any other nation, we have only increased our exports ten per cent over the normal, it seems to me that as the value of these commodities comes down, all this favorable trade balance that the free traders are afraid of, and insist must be settled by imports, is going to disappear.

We will take the case of cotton with which I am familiar. In 1914 we exported four and one-half billion pounds of cotton, raw cotton at an average price of thirteen cents a pound. In 1920 we exported three and one-half billion pounds of cotton, twenty-five per cent less, at an average price of thirty-nine cents a pound. In other words, we received one hundred and twenty-five per cent more for the three and one-half billion pounds of cotton we exported in 1920 than for the four and one-half billion pounds of cotton we exported in 1914. Cotton today can be exported not at thirty-nine cents but at fifteen. Wheat can be exported, not at over three dollars, but for less than two dollars. It is the quantity of these commodities and not their fictitious value in an inflated dollar that we want to consider when dealing with these concrete problems.

In continuation of what Mr. Dingley says about being a creditor nation to one part of the world and a debtor nation to others, I want to ask the question, why not settle international trade balances, not on the direct, but on the triangular method of international exchange? Before the war there were many nations in South America and other parts of the world, where we did not export more than ten per cent of the amount

of the material that we imported. Brazil is a particular example. We imported cotton, to a limited degree, coffee, rubber and hides, and we sold them a very small amount of cotton goods and machinery.

With wages in other countries—and wages after all are seventy to eighty-five per cent of the ultimate cost of all manufactured goods—amounting to one-third to one-fifteenth of our own, why not allow our distressed brothers of Europe to export their cheap cotton and woolen goods and other manufactured articles to Brazil? We will pay the Brazilians in good American dollars for their products, which good American dollars our European competitors will gladly take and in them pay us our bills. Previous to the war, the international balance was settled on the basis of a draft on London. On whoever the international draft of the world may be drawn in the future—whether the financial capital may return to London or be located here in New York—it seems to me makes but little difference. If there can be a triangular interchange, as there was before the world war, instead of direct barter as the free traders would have, the international balance in our favor will in time, to my mind, disappear.

I do not feel that it is possible in the space limits allowed me to discuss the question of the fixed indebtedness of foreign countries to our own. There is one thing that we do know, that they owe us approximately ten billion dollars which we advanced and took their bonds in payment for their war needs. As a manufacturer I want to record my belief that it would be wiser financial policy for our government and our people to forget that debt rather than to put in jeopardy the mills, the farms and the factories of this country in an attempt to force the payment of that debt in commodities manufactured at a labor cost, as we have been told, from one-third to one-fifteenth of our own.